Pitti Engineering Limited

June 28, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	350.24 (Reduced from 355.24)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	10.50	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	137.64 (Enhanced from 132.64)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**498.38 (Rs. Four Hundred Ninety-Eight Crore and Thirty-Eight Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pitti Engineering Limited (PEL) continue to draw strength from the experienced promoters and management team, established track record in the stampings & lamination industry, reputed client base, presence of long-term supply agreement with General Electric (GE), comfortable order book position, adequate liquidity position and stable industry growth prospects. The ratings are, however, constrained by leveraged capital structure, concentrated revenue profile and elongated operating cycle with high dependence on working capital bank borrowings. The ratings also take cognizance of subdued operational and financial performance during FY20 albeit improved in FY21 (period from April 1 to March 31) and the proposed debt funded capex, pending financial closure.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- ✓ Increase in total operating income by 20% on a sustained basis with improvement in PBILDT margin to 18% or above in future years.
- ✓ Improvement of overall gearing to 1.00x or below during projected period.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Deterioration in overall gearing above 1.80x.
- × Operating cycle elongating to more than 175 days in future.

Key Rating Strengths

Experienced promoters and long track record of operations

The promoters of PEL have been in the Stampings and Lamination (S&L) industry since more than three decades. The company is headed by Mr. Sharad B. Pitti, who is the Chairman and Managing Director, and the business operations of the company have benefited from his long established track record in the S&L segment and the vast industry network developed over the years. The overall management and the day-to-day affairs are looked after by his son, Mr Akshay S. Pitti (Vice Chairman and MD) supported by a team of experienced personnel.

Reputed client portfolio

PEL is an established player for stamping and lamination segments in both domestic as well as overseas market and its clientele comprises renowned names in the industrial motor manufacturing industry such as Wabtec Corporation (WC), General Electric (GE), Siemens Limited, ABB India Limited among others from whom the company garners repeated orders.

Comfortable order book position

As on August 31, 2020, the order book position of the company stood at about Rs.294.60 crore which provides near term revenue visibility. Besides this, PEL has a stable revenue stream of approx. Rs.50.00 crore per year for the next few years given long term supply contract with GE India (back-to back supply agreement for the Indian Railways).

Stable Industry Outlook

Stampings & Laminations are at the core of Electrical and Capital Goods industries and the infrastructure build-up of Power Plants, Locomotives, Mining, wind & hydel power generation electric motors and allied electrical products like transformers, stabilizers, various motors, generators, material handling equipments, etc. PEL being placed as one of the largest players in the industrial lamination industry in India, the future prospects of growth are directly linked to growth of end-use industry i.e. power, mining, railways and engineering industry in general. With the government focusing on the development of the core sectors, PEL is expected to benefit from the same.

Key Rating Weaknesses

Moderate operational and financial performance during FY20 albeit improved in FY21

The capacity utilization of the company continues to remain at moderate level of around ~60% during FY20 (~70% in FY19) characterized by the slowdown in the economy. The performance of the company was also impacted in the month of March 2020 and in Q1FY21 owing to imposition of the lockdown and temporary halt in the operations. Consequently, TOI and PBILDT level of the company declined y-o-y by around 16% and 13% respectively during FY20 although the profitability margin remained steady backed by execution of better margin projects. The financial performance of the company although improved in FY21 backed by steady demand and stable outlook.

Moderate capital structure

The capital structure of the company continues to remain leveraged owing reliance of term debt for regular capex along with extensively utilized working capital limits. Overall gearing of the company remained at 1.33x as on March 31, 2020 as compared to 1.34x as on March 31, 2019 despite rise in the debt levels of the company because of equity infusions and accretion of profits to net worth. Further, the total debt/GCA of the company also moderated from 4.88x in FY19 to 7.07x in FY20 on account of increase debt level coupled with decline in GCA level. The interest coverage ratio although declined, remained satisfactory at 2.37x during FY20.

Elongated operating cycle

PEL's nature of business and operations results in extended operating cycle (115 days in FY20, deteriorated from 94 days in FY19). This is primarily because of elongated inventory and collection days in view of the overall turnaround time involved in the exports as well as credit period extended to the customers. Therefore, company's reliance of working capital borrowings also tends to remain high.

Concentrated revenue profile

PEL has high dependence on its major clients which has resulted in concentration of revenue profile. Although, it has diversified the client base with addition of several new and renowned clients; the contribution of revenue from top five clients continues to remain high which was around 75% of the TOI during FY20.

Proposed debt funded capex

The company proposes to incur capex of around Rs.270.00 crore (revised from 190.00 crore envisaged earlier) over the next three years towards capacity augmentation of sheet metal components and machining from current capacity 36,000 MTPA and 247,600 hours to 46,000 MTPA and 405,600 hours respectively. The said capex is proposed to be funded with debt equity of 70:30. Financial closure for the same is pending. The proposed capex is likely to result in moderation of capital structure and may impact the cash flows of the company over in medium term. Also, completion of the envisaged capex without any further time or cost overrun remains critical from rating perspective.

Liquidity analysis: Adequate

The liquidity position of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Liquidity is supported by above unity current ratio. Further, the company had a cash and liquid investments to the tune of Rs.7.54 crore as on March 31, 2020. However, average working capital utilization was high at around 86% for the twelve months ended June, 2020. The company has availed moratorium for 6 months (March'20 to August'20) for its debt servicing. Nevertheless, the company is supported by regular fund infusions by the promoters.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating methodology – Manufacturing Companies
Financial ratios - Non Financial Sector
Liquidity Analysis of Non Financial Sector Entities

About the Company

Incorporated in September 1983, PEL is promoted by Mr Sharad B Pitti of Hyderabad, Telangana. PEL is engaged in manufacturing of electrical laminations (installed capacity of 36,000 MTPA), die-cast rotors, machined components stator and rotor assemblies, press tools, jigs and fixtures at its plants at Mahaboobnagar, Telangana and Aurangabad, Maharashtra. The end users of the products of PEL include Power, Mining, Transportation and Heavy Industrial Motors segment.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)	FY21(Published)
Total operating income	628.75	527.49	538.66
PBILDT	92.73	80.15	98.54
PAT	23.72	17.10	28.77
Overall gearing (times)	1.34	1.33	1.05
Interest coverage (times)	3.18	2.37	3.33

A; Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar. 2026	211.74	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	138.50	CARE BBB+; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	40.50	CARE A2
Fund-based - ST-Forward Contract	-	-	-	2.64	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	94.50	CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.50	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	211.74	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (19-Feb-20) 2)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	138.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (19-Feb-20) 2)CARE BBB+; Positive	1)CARE BBB+; Positive (03-Sep-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
							(09-Sep-19)	
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	40.50	CARE A2	-	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
5.	Fund-based - ST-Forward Contract	ST	2.64	CARE A2	-	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
6.	Non-fund-based - ST-Letter of credit	ST	94.50	CARE A2	-	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	-
7.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.50	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Sep-20)	1)CARE BBB+; Stable / CARE A2 (19-Feb-20) 2)CARE BBB+; Positive / CARE A2 (09-Sep-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4.	Fund-based - ST-Forward Contract	Simple
5.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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